

The 5 “Ws” & more of BC Beef Producers Inc.



How Did We Get Here?

In 2019, the BC Cattlemen’s Association (BCCA) had consumer and customer research done, which suggested a consumer preference for beef raised and processed in BC. The market research indicated that 82% of BC consumers would definitely or probably buy BC Beef.

The research also indicates:

- 46% of consumers prefer to buy local over national brands (but “local” means different things to different consumers)
- 55% of consumers have very little trust in big brands, up from 36% in 2012
- local consumers prefer to support local economies.

BCCA and the BC Association of Cattle Feeders (BCACF) had set up an industry steering committee to look at establishing a federally inspected processing facility in BC and creating a “BC Beef” brand. The steering committee includes representatives of BCCA, BCACF, Breeders and Feeders, beef producers and dairy producers as well as government liaisons and consultants, current members being Judy Guichon, Grant Huffman, Joe Heemskerk, Dale Martins, Ed Wiebe, Pamela Krause, Henry Bremer, Thomas Wyker, Ken Fawcett, Ministry of Agriculture representatives Arif Lalani and Laura Code, and BCCA representatives Brian Thomas, and Kevin Boon, Bree Patterson and Jennifer Leeuw. Consultants are Bruce Cowper, Glenn Brand, and Mark Ishoy. Legal advisor is Mary MacGregor.

In spring 2020, the steering committee learned of the opportunity to lease an existing processing facility near Westwold, BC. The steering committee worked out a business plan to lease the plant to process BC cattle, develop a BC Beef brand (“Genuine BC Beef”), and market the products. A lease has been signed by the facility owners and newly incorporated company BC Beef Producers Inc. (BCBP), which must be triggered by BCBP before October 31st for a November 15, 2020 lease start.

The concept developed by the steering committee is that BCBP will buy cull cows from qualifying producers, who will participate in profits, the plant will process the cows and BCBP will sell the products under the “Genuine BC Beef” brand.

The whole objective is to enhance the financial sustainability of BC’s cattle producers and provide locally sourced product to BC consumers.

Who?

The only people who can own shares in BCBP are British Columbia residents who are producers of BC born and raised cattle – initially cull cows – and who are VBP+ (beef) or proAction (dairy) qualified producers or who will enter the VBP+ program and prepare for an audit within a year.

What?

BCBP is a British Columbia registered limited liability company, which will own the BC Beef brand and will initially buy and process cull cows and eventually fed cattle, and market the product under the “Genuine BC Beef” brand.

A BCBP shareholder will own one voting share, and the number of hook shares equal to the number of cull cows that shareholder wants to commit to BCBP. No hook shareholder may own more than 10% of the total number of hook shares.

Voting shares just vote, hook shares are for supply of cows to the processing facility. For share entitlements and obligations see “supply agreement” and “shareholders agreement” sections below.

“Genuine BC Beef” is the brand that has been created and will be used to market the products from the plant. The important brand aspects are that the products are locally raised and processed, owned by BC producers who have appropriate animal welfare and production practices as evidenced by VBP+ and proAction standards.

Each potential shareholder needs to review these questions and answers, the supply agreement, the shareholders agreement, the company’s articles of incorporation, and the share subscription agreement. Review and plus consider seeking advice from professional advisors (your lawyer, accountant, etc.).

The Supply Agreement acknowledges that the objective of the venture is to develop a BC Beef brand and provide one or more processing facilities in BC to supply BC Beef products, all for the benefit of BC’s cattle producers and consumers. It says:

- Cows have to be BC born and raised
- Cows have to come from VBP+ or proAction operations
- Each producer will buy one voting share and as many hook shares as the number of cull cows the producer commits to ship each year. The hook share cost is \$175 per share
- The term of the supply agreement is two years, which can be extended if BCBP has access to processing facilities
- The producer is obligated to supply cows to fill his/her hook shares on dates to be worked out between the producer and BCBP
- BCBP will make commercially reasonable efforts to

process the cows and market the products, maintain a processing facility, and account for calculation of the payment for the cows and the share of profits, provide cut-out information and advise about BCBP’s marketing performance.

- If the producer fails to supply cows equal to at least 90% of the number of hook shares, then both the producer’s shares and any shareholder advance by the producer will be forfeited. See shareholder agreement for director discretion regarding forfeiture.
- The initial payment is based on the weekly rail grade price of Canfax published Weekly Market Outlook Analysis D2 and D2 slaughter cows West (AB) with a 650 lb target carcass and bonuses/demerits for heavier or lighter carcasses.
- A producer committee will be established shortly after start-up to validate and fine-tune the pricing formula.
- Once a year, the hook shareholders who delivered cows that year will receive their share of profits from product sales net of all costs, on a per-cow-delivered basis.
- If the directors believe that the venture needs cash to continue operating, they can go through a process set out in the supply agreement to require hook shareholders to advance money to BCBP to a maximum of the cost of their investment in hook shares.

All shareholders must sign the shareholders agreement which:

- Prevents transfer of shares without director approval
- Limits any shareholder to a maximum of 10% of the hook shares
- Requires shareholders to have a supply agreement with BCBP
- Sets the board at 9 directors who all have supply agreements. The board may establish an advisory board or include members with only advisory roles.
- Explains the rationale for forfeiture of shares on failure to supply cattle, and gives the directors the ability to waive the forfeiture in a situation where the failure was not wilful and where the shareholder tried to avoid failing to supply cattle.
- Says that on the death of a shareholder, BCBP may allow the transfer of the deceased shareholder’s shares to his or her survivors, may redeem or repurchase the shares at a price not to exceed the issue price, or may require return of the shares without compensation.
- Where shares are repurchased, BCBP can pay for them over five years.
- Explains how market price of the shares can be established, initially by agreement of the directors annually based on the retained earnings of BCBP.

The articles of the company also have legal information about the two share types (voting and hook). The subscription agreement is what a producer completes and signs if he or she wishes to become a shareholder. It describes the producer’s qualifications to become a shareholder.

As well, hook shareholders may not be able to deliver all their cows at their preferred time of year. The processing facility will have a scheduler, whose job it is to make sure the plant

always operates at capacity. The scheduler will work with the producer to arrange a date or dates suitable to both the hook shareholder and the facility.

Hook shareholders and scheduler will need to work together in the first months of operation to allow for development and evolution of the process of scheduling shipment of cows to the plant. Producers may look for options to feed cows to deliver at non-traditional times of year. Regional cow assembly points may also be worth considering.

Where?

Initially BCBP is leasing a federally inspected processing facility located in Westwold BC. If the venture is successful, other options for processing will be examined.

Why?

The whole reason behind BCBP is to offer BC’s cattle producers the opportunity to participate in any profits from the efficiencies of processing cull cows locally and in selling the products as a branded product, “Genuine BC Beef”. The concept is to create a BC beef brand and a reliable market for BC born and raised cull cows; that the “gate to plate” process will create efficiencies and result in profits for those who supply the cows.

Profits are not guaranteed. Heavier, fleshier cows are more profitable to process than small thin cows. As discussed under “supply agreement” above, cows will be bought at market value on the rail, with prices adjusted up or down on a grid for size and quality of carcass and possibly for season of delivery. The objective of the bonus/demerit system is to incentivize hook shareholders to bring in cull cows when they are in good flesh and are profitable to process.

Once a year, revenue from sale of processed products minus production costs, less a reasonable reserve, will be divided among the hook shareholders who shipped cows to the processing facility in that year, on a per-cow-supplied basis.

Associated producer benefits are believed to be:

- Promotion of a quality BC branded product
- Reduced stress and shrink
- No sales fee at sales yard
- Potentially reduced trucking costs as cull cows would otherwise go to Alberta or Washington
- Availability of carcass quality information on processed cows
- Value of involvement in a “gate to plate” venture.

Why Not?

An investment in BCBP is risk capital. The risk is that the shareholder may lose the investment in shares and that the anticipated benefit of owning shares and being able to participate in the marketing and distribution model may not be realized. Because profits are continually distributed to cow suppliers, there is a high likelihood that the value of each hook share will be low or nominal.

There is also a risk of a demand to invest more money in

BCBP. To protect BCBP's continued ability to operate and if approved by a hook shareholder vote, the company's directors may require hook shareholders to advance additional funds to BCBP, up to a maximum of the price of their existing hook shares.

The venture could prove not to be profitable in which case there would be no profits paid to the producer and the risk of loss of the producer's investment.

This Q and A document talks about expectations and assumptions about the future, including the benefits of marketing a locally based Genuine BC Beef brand, consumer preferences for such a brand, the anticipation that the process will create efficiencies and profits, the margins associated with a branded marketing program, long term BC based processing access, and decreased stress and shrinkage.

These statements reflect the beliefs and assumptions of the steering committee and consultants, based on the information currently available. While BCBP believes that the expectations and assumptions on which these forward-looking expectations and assumptions are based are reasonable, BCBP cautions producers not to place undue reliance on these forward-looking statements.

When - and How?

For interested producers, the time to act is now, as BCBP needs to secure a supply of cattle for plant opening by November 15, 2020.

Interested producers should send an expression of interest to Jennifer at BC Cattlemen's Association at 250-573-3611 or email: info@bcbeefproducers.com. The expression of interest needs to include:

- Name (must be the cow owner)
- Address, email address, and phone number
- Number of cows to be marketed each year
- Preferred month(s) to ship cows
- VBP+ or proAction status. Note: if a producer is not currently VBP+, they can register and undertake a short online course, then prepare for an audit in approximately a year in order to obtain VBP+ certified status.

The expression of interest does not bind the producer to anything. The producer will be emailed the Supply Agreement, Shareholders Agreement, Subscription Agreement, and company Articles for review including review by professional advisors.

A producer who wants to buy shares will complete and return the completed and signed subscription agreement, supply agreement and shareholders agreement, plus payment for the voting share (\$1) and hook shares at \$175 each. Cheques or other payment forms are to be made payable to BC Beef Producers Inc. Payment will not be processed and shares will not be issued until the processing facility lease is approved to proceed. When that approval is given, shares will be issued, and cheques or other payment forms will be processed.

If the producer wants assistance to complete the agreements, Jennifer Leeuw will assist.

Other Questions from Interested Producers

Producers have asked some interesting questions – here they are:

Why start with cull cows and hamburger, which tend to be suited to a budget minded consumer who doesn't have an extra "feel good" budget, instead of a top-quality beef product?

The BCBP business plan to process cull cows and produce boneless or ground beef, is the ideal learning ground for the participants to refine the process of producing beef, developing the brand, and selling branded product. BC has many cull cows and a small fed cattle industry, so supplies of cows into the processing plant are less of a challenge. Working on the brand and sale of branded products is easier with this small number of products. When BCBP has mastered plant supply, operation, and branded product sales, that is the time to expand the types of cattle into the plant and the diversity of product offerings.

Why is the Westwold plant available for lease? If it wasn't profitable before how does this venture look to make it profitable? The BCBP model ensures a steady supply of cattle to be processed, one of the key determinants of the success of the venture. The steering committee has also had time to consider and fine tune the corporate structure and how producers will be involved in the venture. As to the previous operator of the plant, the committee is not privy to their business or financial information, nor the reasons why the plant came available for lease.

How can this plant compete with the larger processors? And how does it plan to address competition from the larger brands who will likely fight to keep their market?

The aspects of the BCBP venture which are to provide shelter from head-to-head competition with the larger processors are:

- a) the "Genuine BC Beef" branding, which research indicates is preferred by 82% of BC's consumers;
- b) the committed supply of cows into the plant from BC Beef Producers' hook shareholders; and
- c) professional plant management and marketing.

BC Beef Producers' estimated market share of beef consumed in British Columbia is between 2 to 3%.

What are the gate to plate efficiencies of this opportunity? How does this venture address the challenges faced by other ventures?

The efficiencies come in three different areas:

- a) lower costs in getting cows to the plant – less shrink, lower shipping costs as a shorter distance;
- b) selling commissions at sale barns; and
- c) opportunities for producers to understand first-hand cull cow cut-outs and lots of opportunities for producers to develop specific cows to send to the plant. Information systems are planned to provide information to producers.

As well, several in-plant changes are planned to increase efficiency. Growing, processing, and selling within region does create efficiencies in the repeated experience of our meat plant consultants.

Has there been research done into other producer-owned plants? How does this one address the challenges faced by other ventures?

The success factors for the BCBP venture are:

- a) the plant is leased, meaning much smaller start-up cost. In seven or eight other start-ups in which our consultants were involved, the cost of interest and depreciation on a new (for example) \$10 million plant are ruinous for the first year of operations when the plant is fine-tuning its operations and establishing its brand. The lease arrangement reduces risk and allows BCBP to focus on marketing its branded product; and
- b) the committed supply plus branded product placement differentiates BCBP from other producer-owned plants.

How do I get out of the investment? If something bad happens, how much of my equity will be used before closing it down?

The simplest way to get out of the investment is to refuse to supply cows to fill the producer's hook shares. The shares and any loan will be forfeited to BCBP at that point. Except for on death of a shareholder, there is no commitment by BCBP

to repurchase shares from investors, although the directors may choose to do so in certain circumstances.

If BCBP were to fail, there is no assurance of any recovery to the shareholders. Any bank loan would be paid out first and any balance would be distributed among hook shareholders.

How Will BC Beef be marketed?

BCBP will be marketing "Genuine BC Beef" products through selected food service distributors, retailers, and local markets as well as targeted regional restaurant chains.

How will cull cows be verified as BC born and raised?

The following alternatives are available to confirm "BC Born and Raised":

- a) producer is a certified VBP+ or proAction producer
- b) a sworn statement from a producer as to the cow origin and residency
- c) check of cattle brand(s).

If you have additional questions, contact BCCA at 250-573-3611



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